

ENFORCEMENT ACTIONS

PIH-REAC's Quality Assurance Subsystem (QASS) is tasked with assuring that financial data received under the UFRS and PHAS are free of material misstatements. To this end, QASS identifies high-risk audit firms, performs Quality Assurance Reviews (QARs) to determine compliance with professional auditing and accounting standards and HUD requirements, and makes referrals to oversight bodies as appropriate.

Based on QARs performed in Fiscal Years 2001 through 2005, QASS decided to refer for potential action 37 public accounting firms who performed audits of entities covered by UFRS and PHAS. As of April 13, 2006, 92 referrals have been made to State Boards of Accountancy and the District of Columbia Board of Accountancy, 22 referrals to the AICPA, and 12 referrals to the Departmental Enforcement Center. State Boards of Accountancy have jurisdiction over Certified Public Accountants (CPAs) who practice in their state. The AICPA's Professional Ethics Divisions investigates complaints against CPAs who are members of that organization. The Departmental Enforcement Center is the HUD office responsible for initiating suspension and department actions.

The Department is aggressively pursuing action against auditors who have egregiously violated professional standards and HUD requirements. To date – based on referrals made to oversight bodies as a result of QARs performed by QASS – the following enforcement actions have been taken or are proposed against IPAs:

Mark D. Midkiff, CPA

On March 27, 2006, the Florida Board of Accountancy, based on the results of quality assurance review by QASS, and in lieu of further proceedings under Florida Accountancy Law and the regulations of the Board of Accountancy, specifically Florida Statutes Chapters 455 and 473 and Sections 120.569 and 120.57(4), and Florida Administrative Code Rules 28-106.302 and 61H1-22.001-.009, agreed to the following Final Order stipulated disposition with Mark D. Midkiff, CPA (Respondent):

1. Respondent shall in the future fully comply with the provisions of Chapters 455 and 473, Fla. Stat., and the rules promulgated pursuant thereto.
2. **COSTS:** Respondent shall pay costs in the amount of \$5872.46 within thirty (30) days of the effective date of a Final Order approving this stipulation.
3. All monies due hereunder shall be paid to the Department of Business and Professional Regulation, Bureau of Revenue, 1940 North Monroe Street, Tallahassee, Florida 32399, shall include the case number(s) for which the payment is being made and a designation of the payment as "Costs".
4. **PROBATION:** Respondent's license shall be on probation for three (3) years, to commence upon the Respondent's commencement of, or return to, the public practice of accounting in the State of Florida.
 - A. **REVIEW:** During the term of probation, a C.P.A. consultant for Petitioner shall conduct a pre-issuance review of all audits performed by the Respondent. All expenses incurred as a result of the consultant's review shall

be the responsibility of Respondent. If said review reveals deficiencies in Respondent's practice, the Board, at its discretion, may extend the probationary period and impose additional terms and conditions, as it may then deem appropriate.

- B. During the first year of probation, the Respondent shall complete sixteen (16) hours of continuing professional education (CPE) in Auditing and Accounting (A & A). All CPE required hereunder shall be in addition to that required for renewal of the license.
 - C. Should Respondent violate any condition of this probation, or commit any further violation(s) of Chapter 473, Fla. Stat., it will be considered a violation of Respondent's probation and may result in further disciplinary action against Respondent's licensure. Should Respondent's license be suspended or otherwise placed on inactive status, or if Respondent leaves the practice of public accountancy for thirty (30) days or more after commencement of the probationary period, the probationary period shall be tolled, and shall resume running at the time Respondent returns to the active practice of public accountancy. Probation status shall continue until all probation requirements are met, and until all probationary reviews are considered and approved by the Board.
 - D. To ensure successful completion of probation, Respondent's license shall be suspended for the period of probation, with the suspension stayed for the period of probation. The time of the suspension and the stay shall run concurrently with the period of probation, except as otherwise provided herein. If Respondent successfully completes probation, the suspension shall terminate. If Respondent fails to comply with all requirements set forth in the Final Order adopting this Stipulation or fails to make satisfactory appearances as determined by the Board or its Executive Director, the stay shall be lifted. Once the stay is lifted, Respondent shall remain in suspended status unless and until a further stay is issued by the Board.
- 5. It is expressly understood that a violation of the terms of this Stipulation shall be a violation of Chapter 473, Fla. Stat., for which disciplinary action may be taken.
 - 6. This stipulation is executed by Respondent for the purpose of avoiding further administrative action with respect to this cause.

On February 27, 2006, the Georgia State Board of Accountancy, based on the results of quality assurance review by QASS, and in lieu of further proceedings under Georgia Accountancy Law and the regulations of the Board of Accountancy, specifically provisions of the Georgia Administrative Procedure Act, O.C.G.A. Section §50-13-13(a)(4), as amended and O.C.G.A.T. 43, Chapters. 1 and 3, agreed to the following Order with Mark D. Midkiff, CPA (Respondent):

Beginning on the effective date of this Consent Order, Respondent's certificate and a live permit to practice as a certified public accountant in the State of Georgia shall be placed on probation for a period of two (2) years, commencing on the effective date of this Consent Order, subject to the following terms and conditions:

- a. During the first year of the probationary period, Respondent shall submit for a pre-issuance review by a Certified Public Accountant (“CPA”) licensed in Georgia, chosen by the Respondent and approved by the Board, all audits, reviews, and compilations prepared by Respondent for Georgia financial audits with the year ending December 31, 2004 through November 30, 2005 that are required to follow generally accepted accounting standards. For purposes of this order, Rhett Harrell has been approved for such pre-issuance reviews. Within ten (10) days of completion of such pre-issuance review, Respondent shall supply the Board with evidence of compliance with the provision. If the Respondent prepares no audits, reviews, and compilation during the first year of the probationary period, the Respondent shall report that information in writing to the Board within fifteen (15) days following the conclusion of the one-year period.
- b. During the probationary period, the Respondent shall earn 16 hours of continuing professional education (CPE) in governmental audits and/or yellow book standards as approved by the Board. In order to comply with this provision, the Respondent must submit evidence to the Board **prior to** the end of the probationary period showing completion of the required CPE hours. **The CPE hours required by this paragraph shall be in addition to the CPE hours required for biennial renewal of a live permit.**
- c. During the probationary period, the Respondent shall comply with all the terms and conditions of his South Carolina Consent Order and Florida Consent Orders. In addition, any reports required to be submitted to South Carolina and/or to Florida under those Orders should also be submitted to the Georgia Board. If for any reason, Respondent’s South Carolina or Florida certificate is revoked, Respondent’s Georgia license may be revoked.
- d. Respondent agrees to pay to the Board a fine in the amount of \$500.00. Said fine shall be paid by cashiers check or money order made payable to the Board. The fine shall be paid within ninety (90) days of the effective date of this Order. Failure to pay the fine by the ninetieth day shall be grounds for additional disciplinary action including revocation.

The QASS quality assurance review found Mark D. Midkiff, CPA in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA’s Statements on Standards for Attestation Engagements. Mark D. Midkiff, CPA audited 19 public housing authorities in 4 states, including 4 in Florida and 10 in Georgia, from March 31, 2001 through December 31, 2001.

Michael Anthony Celentano, CPA

On February 7, 2006, the California Board of Accountancy, based on the results of quality assurance review by QASS, notified HUD of the Board’s conclusion that Michael Celentano, CPA (the licensee) needed additional education in the areas of internal control and work paper preparation. The Board assigned the licensee to take specific continuing professional education (CPE) courses related to internal control and work paper preparation techniques for government and nonprofit organizations.

The QASS quality assurance review found Michael Celentano, CPA in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and applicable HUD requirements. Michael Celentano, CPA audited 6 Tribally Designated Housing Entities (TDHE) in 3 states including 2 in California, from March 31, 2000 through December 31, 2000.

Malcolm Johnson & Company, PA
Malcolm P. Johnson, CPA
James K. Barker, Jr.

On November 15, 2005, the Pennsylvania State Board of Accountancy, based on the results of quality assurance review by QASS, and in lieu of further proceedings under Pennsylvania C.P.A. Law as amended December 8, 1976, P.L. 1280, No. 286, 63 P.S. §9.1 et seq (the Act) and the regulations of the Board of Accountancy, specifically Section 9.1. 63 P.S. §§9.9a(a)(16) and (c)(2), entered into the following Consent Agreement with Malcolm Johnson & Company, PA and Malcolm P. Johnson, CPA (Respondents):

- a. Respondent violated the Act in that, with respect to the Philadelphia Housing Authority referred to in the Order to Show Cause, the audit papers should more fully have documented that the auditor had aggregated and evaluated the impact of individual immaterial adjustments to financial statements for the housing authority in order to determine the adjustments that might be material to those financial statements in the aggregate.
- b. Respondent shall pay a **CIVIL PENALTY** of \$5000.00 dollars (five-thousand dollars) by cashier's check, certified check, U.S. Postal money order or attorney's check, made payable to "Commonwealth of Pennsylvania." Respondent shall return the full civil penalty with the signed Consent Agreement.

The QASS quality assurance review found Malcolm P. Johnson, CPA in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA's Statements on Standards for Attestation Engagements. Malcolm P. Johnson, CPA audited 64 public housing authorities in 16 states and the District of Columbia, including the Philadelphia Housing Authority, from September 30, 1999 through June 30, 2000.

On April 29, 2004, The Department of Housing and Urban Development announced that it has settled a proposed debarment of the certified public accounting firm, Malcolm Johnson & Company, P.A. of DeBary, FL, Malcolm P. Johnson, and James K. Barker, Jr.

"The message is clear," said HUD Assistant Secretary Michael Liu, who heads up the agency's Office of Public and Indian Housing. "HUD expects federal funds to be accurately accounted for and we will not tolerate deficient audits involving HUD programs."

Under the settlement, Malcolm Johnson & Company, P.A., agreed to:

- Make an administrative payment of \$50,000 to HUD.
- Fund an independent accounting firm to perform a review of eight of the company's audits over a two-year period. HUD will choose the independent reviewer and the audits to be reviewed, and the auditors and the company provided a \$50,000 Letter of Credit to guarantee payment for the independent reviews.
- Restrict the number of public housing authority audits they perform over the next two years to 60 per year at PHAs having less than 1,250 units; and eliminate audits of PHAs with more than 1,250 units.
- Complete a limited number of audits currently under contract for PHAs with fiscal years ending March 31, 2003 and June 30, 2004.

The proposed debarments alleged that the firm failed to follow professional auditing standards in performing audits for housing authorities in: Gainesville and Miami Beach, FL; New Orleans, LA; Spartanburg, SC; Royston and Atlanta, GA; Cincinnati, OH; and Washington, D.C.

See <http://www.hud.gov/news/release.cfm?content=pr04-041.cfm> for the press release related to this action.

Ralph A. Lee
DBA Ralph A. Lee, CPA

On September 12, 2005, the Florida Board of Accountancy, based on the results of quality assurance review by QASS, and in lieu of further proceedings under Florida Accountancy Law and the regulations of the Board of Accountancy, specifically Florida Statutes Chapters 455 and 473 and Sections 120.569 and 120.57(4), and Florida Administrative Code Rules 28-106.302 and 61H1-22.001-.009, agreed to the following Final Order stipulated disposition with Ralph A. Lee DBA Ralph A. Lee, CPA (Respondent):

1. Respondent shall in the future fully comply with the provisions of Chapters 455 and 473, Fla. Stat., and the rules promulgated pursuant thereto.
2. **COSTS:** Respondent shall pay costs in the amount of \$4682.61 within thirty (30) days of the entry of a Final Order approving this stipulation.
3. All monies due hereunder shall be paid to the Department of Business and Professional Regulation, Bureau of Revenue, 1940 North Monroe Street, Tallahassee, Florida 32399, shall include the case number(s) for which the payment is being made and a designation of the payment as "Costs" or "administrative Fine".
4. **PROBATION:** Respondent's license shall be on probation for two (2) years.
 - A. **REVIEW:** During the term of probation, a C.P.A. consultant for Petitioner shall conduct a pre-issuance review of three (3) HUD audits. All expenses incurred as a result of the consultant's review shall be the responsibility of Respondent. If said review reveals deficiencies in Respondent's practice, the

Board, at its discretion, may extend the probationary period and impose additional terms and conditions, as it may then deem appropriate.

- B. In addition to the forgoing, the Respondent shall submit to the consultant a copy of his firm's peer review report upon its completion.
 - C. During the term of probation, the Respondent shall complete forty (40) hours of continuing professional education (CPE) by completing a senior level audit staff training course. The hours required by this paragraph shall count toward the Respondent's biennial license renewal.
 - D. Should Respondent violate any condition of this probation, or commit any further violation(s) of Chapter 473, Fla. Stat., it will be considered a violation of Respondent's probation and may result in further disciplinary action against Respondent's licensure. Should Respondent's license be suspended or otherwise placed on inactive status, or if Respondent leaves the practice of public accountancy for thirty (30) days or more after commencement of the probationary period, the probationary period shall be tolled, and shall resume running at the time Respondent returns to the active practice of public accountancy. Probation status shall continue until all probation requirements are met, and until all probationary reviews are considered and approved by the Board.
 - E. To ensure successful completion of probation, Respondent's license shall be suspended for the period of probation, with the suspension stayed for the period of probation. The time of the suspension and the stay shall run concurrently with the period of probation, except as otherwise provided herein. If Respondent successfully completes probation, the suspension shall terminate. If Respondent fails to comply with all requirements set forth in the Final Order adopting this Stipulation or fails to make satisfactory appearances as determined by the Board or its Executive Director, the stay shall be lifted. Once the stay is lifted, Respondent shall remain in suspended status unless and until a further stay is issued by the Board.
- 5. It is expressly understood that a violation of the terms of this Stipulation shall be a violation of Chapter 473, Fla. Stat., for which disciplinary action may be taken.
 - 6. This stipulation is executed by Respondent for the purpose of avoiding further administrative action with respect to this cause.

The QASS quality assurance review found Ralph A. Lee DBA Ralph A. Lee, CPA in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA's Statements on Standards for Attestation Engagements. Ralph A. Lee DBA Ralph A. Lee, CPA audited 37 public housing authorities in 5 states, including 4 in Florida, from March 31, 2002 through December 31, 2002.

Edward F. Stockton, PC
Edward F. Stockton

On August 26, 2004, the South Carolina Board of Accountancy, based on the results of quality assurance review by QASS, and in lieu of further proceedings under

South Carolina Accountancy Law and the regulations of the Board of Accountancy, specifically Section 42-2-290 (4), (5) and (9) and Regulation 1-19 and 1-21A, agreed to the following Order with Edward F. Stockton, PC and Edward F. Stockton (Respondent):

1. Respondents agree to the terms of this Consent Order.
2. Respondents shall pay a fine in the amount of five-hundred dollars (\$500) to the South Carolina Board of Accountancy within Thirty (30) days of the date of this Consent Order and if they fail to do so, further action to reopen this matter or to enforce this Consent Order may be taken.
3. Respondent agrees to be placed on probation for a period of one year from the date of this Consent Order and this Board shall retain jurisdiction of this matter and this matter may be reopened, the probation revoked, and additional sanctions imposed, up to and including suspension or revocation of Respondents' license if any new violations occur during the probationary period.
4. Respondent agrees that, in addition to the normal Continuing Professional Education requirements, respondent shall obtain an additional twelve (12) hours of Continuing Professional Education units in yellow book auditing.
5. Respondent agrees that he shall submit all yellow book audits to the Board for review for a period of one year after the date of this order.
6. Respondent agrees to comply with all laws and regulations applicable to the practice of Accounting.

The QASS quality assurance review found Edward F. Stockton, PC in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA's Statements on Standards for Attestation Engagements. Edward F. Stockton, PC audited 59 public housing authorities in 11 states, including 4 in South Carolina, from March 31, 2000 through December 31, 2000.

Brewster & Associates
Tom E. Brewster, CPA

On June 24, 2004, the Florida Board of Accountancy, based on the results of quality assurance review by QASS, and in lieu of further proceedings under Florida Accountancy Law and the regulations of the Board of Accountancy, specifically Section 455.225, Florida Statutes and Subsection 473.323(1) and Rule 61H1-22, Florida Administrative Code, ORDERED and ADJUDGED that Tom E. Brewster and Tom E. Brewster, CPA (Respondents) be placed on probation for a period of One (1) Year under the following terms and conditions::

1. Respondent shall not violate the laws and rules governing the practice of public accountancy in the State of Florida.
2. A Department CPA consultant shall prior to the end of the probationary period, conduct a practice review at Respondent's expense to include three corporate tax returns, three personal tax returns, three audits, and three reviews prepared by Respondent. Any deficiencies found may result in an extension of probation or a

- finding of probable cause to believe further violations of Chapter 473, Florida Statutes, and/or the rules promulgated pursuant thereto, have occurred.
3. In addition to the foregoing, a pre-issuance review by the Board's CPA consultant shall be performed on HUD audits conducted by the Respondent during said probationary period at Respondent's expense. In the event no HUD audits are conducted by the Respondent during the probationary period, the Respondent shall contact the Board of Accountancy at such time as HUD audit is conducted. The license of the Respondent shall then be placed on probation until such time as a pre-issuance review can be performed and Respondent's work is found to be satisfactory.
 4. Finally, Respondent is assessed the costs of investigation in the amount of \$9646.04, said costs to be due and owing within thirty (30) days of the entry of this Order.

The QASS quality assurance review found Brewster & Associates and Tom E. Brewster, CPA in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA's Statements on Standards for Attestation Engagements. Brewster & Associates and Tom E. Brewster, CPA audited 51 public housing authorities in 6 states, including 6 in Florida, from January 1, 2000 through December 31, 2000.

On April 29, 2004, The Department of Housing and Urban Development announced that it has settled a proposed debarment of the certified public accounting firm, Brewster & Associates of Pensacola, FL and Tom E. Brewster.

"The message is clear," said HUD Assistant Secretary Michael Liu, who heads up the agency's Office of Public and Indian Housing. "HUD expects federal funds to be accurately accounted for and we will not tolerate deficient audits involving HUD programs."

Under the settlement, Brewster & Associates agreed to:

- Abide by a two-year voluntary exclusion from participating in all transactions involving HUD funds including, but not limited to, performing audits and financial reviews; assisting other persons or businesses that are performing audits and financial reviews for PHAs or HUD-insured or assisted projects.

The proposed debarments alleged that the firm failed to follow professional auditing standards in performing audits for public housing authorities.

See <http://www.hud.gov/news/release.cfm?content=pr04-041.cfm> for the press release related to this action.

In addition, a hearing panel of the AICPA Joint Trial Board, found Mr. Brewster guilty of violating AICPA Bylaw 7.4.6 by failing to respond to inquiries from the Technical Standards Subcommittee of the Professional Ethics Division, in its attempt to

investigate his professional conduct. Based on Mr. Brewster's misconduct, the AICPA terminated Mr. Brewster's membership with their organization effective on April 15, 2004.

David O. Tate, CPA
David O. Tate

On June 2, 2004, The Department of Housing and Urban Development reached a settlement with the firm of David O. Tate, CPA of Mangum, OK, and Mr. David O. Tate.

Under the settlement, David O. Tate, CPA agreed to voluntarily abstain from performing audits or financial reviews, or assisting other persons or business in performing audits or financial reviews for public housing authorities or HUD insured or assisted projects for a period of five years.

The results of a quality assurance review performed by HUD alleged that the firm failed to follow professional auditing standards in performing audits of the following entities:

Housing Authority of the City of Cisco, TX; Housing Authority of the City of Norman, OK; Housing Authority of the City of Lawrence, KS; Housing Authority of the Sac and Fox Nation; Housing Authority of the Creek Nation of OK; and Working for Independent Living, Inc. (FHA # 117 EH044).

Firm of Mike Estes, PC
Michael Lee Estes, CPA

On January 27, 2004, the State Board of Certified Public Accountants of Louisiana, based on the results of quality assurance review by QASS, and in lieu of further proceedings under Louisiana Accountancy Law and Rules of Professional Conduct adopted by the Board, specifically LA. Rev. Stat. §§37:39.A(13) and §49:950 *et seq.* and LA Admin. Code §46:XIX.1703.B and §46:XIX.1703.C, agreed to a Consent Order with Michael Lee Estes, CPA and the Firm of Mike Estes, PC (Respondents) based on HUD's settlement agreement. Provisions of the Consent Order include:

- Respondents shall timely comply with all provisions of the Settlement Agreement entered into between the Respondents and HUD identified as Docket No. 03-3029-DB and No. 03-303-DB, signed by the Respondents on October 9, 2003 (hereinafter referred to as "Settlement Agreement"); and
- Respondents shall promptly notify the Board's office of their failure to timely comply with any of the provisions of the Settlement Agreement. Such notification shall include a written explanation as to why the Respondents failed to timely comply with the provision(s); and
- Respondents shall provide to the Board's office a copy of any notification or correspondence from HUD concerning failure by the Respondents to comply with any provision of the Settlement Agreement. The Respondents shall include a written

explanation as to why the Respondents failed to comply with the provision and an explanation as to the measures that will be taken by the Respondents to comply with the provision. The copy of notification or correspondence from HUD and the written explanations shall be provided to the Board's office by the Respondents within thirty (30) days of the Respondents' receipt of the notification or correspondence from HUD; and

- Respondents shall provide to the Board's office a copy of the results of each of the quarterly desk/paper reviews of audits agreed to in paragraph 6 of the Settlement Agreement, together with documentation that the Respondents have corrected any instances of non-compliance noted in the reviews. The results of the reviews, and documentation of the Respondents' correction of any instances of non-compliance noted in the reviews, shall be provided to the Board's office within thirty (30) days of the Respondents' receipt of the results of each review; and
- If the results of any of the reviews agreed to in paragraph 6 of the Settlement Agreement reflect serious deficiencies or substantial failure to comply with applicable professional standards, determination of such to be at the sole discretion of the Board, the Board may assess additional sanctions or actions against the Respondents including, but not limited to, suspension of the Respondents' right to prepare and issue audit reports for Louisiana clients; and
- Respondents shall notify the Board's office in writing, on a quarterly basis, as to whether the Respondents have engaged to perform any attest engagements (audits, reviews, compilations) for any Louisiana based clients who receive any funding from HUD. The Respondents shall include with the written notification a list of those clients, an indication as to the type of attest engagement to be performed for each client, and the expected completion date of each attest engagement. The Respondents shall provide the first report within fifteen (15) days of the Respondents' receipt of notification from the Board's office that this Consent Order was signed by the Secretary of the Board, and thereafter shall provide the information on a quarterly basis.

The QASS quality assurance review, which include 6 Louisiana audits, found the certified public accounting firm Mike Estes, PC and its president Mike Estes in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA's Statements on Standards for Attestation Engagements. The Firm of Mike Estes, PC and Michael Lee Estes, CPA audited 76 public housing authorities in 3 states from September 30, 1999 through June 30, 2000.

On October 28, 2003 The Department of Housing and Urban Development announced that it has settled a proposed debarment of the certified public accounting firm Mike Estes, PC of Fort Worth, Tex., and of its president Mike Estes.

"This settlement protects resources that are meant to benefit public housing residents," said HUD Assistant Secretary Michael Liu, who heads up the agency's Office of Public and Indian Housing. "The Department will continue to aggressively prosecute CPAs who conduct deficient audits involving HUD programs."

Under the settlement, Estes and the company has agreed to:

- Make an administrative payment of \$50,000 to HUD.
- Have an independent accounting firm perform a review of eight audits over a two-year period.
- Place an additional \$50,000 in escrow to cover costs of independent reviews of their work over the next two years. HUD will choose the independent reviewer and the audits to be reviewed.
- Reduce the number of public housing authority audits they perform over the next two years to only 30 per year.

In addition to these provisions, Estes and company will correct any noncompliance reported by the independent reviewer and will implement any recommendations for changes in its accounting and auditing practices. The parties negotiated this settlement after Estes and his company approached HUD in an effort to avoid further litigation.

The proposed debarments alleged that the firm failed to follow professional auditing standards in performing audits for housing authorities in: St. Charles Parish, City of Crowley, City of Gibsland, Town of Ferriday, and City of Houma, Louisiana, and Henderson and Monahans, Tex.

See <http://www.hud.gov/news/release.cfm?content=pr03-118.cfm> for the press release relating to this action.

Darnell & Thompson, P.C.
Thomas Richard Thompson

On August 25, 2003, the North Carolina State Board of Public Accountant Examiners, based on the results of quality assurance review by QASS, and in lieu of further proceedings under 21 NCAC Chapter 8C, agreed to the following Order with Darnell & Thompson, P.C. and Thomas Richard Thompson (Respondent):

1. Respondent and Respondent Firm are censured.
2. Respondent is required to, at all times, be present on site as the supervisor of all North Carolina housing authority audits while such audits are being performed by or on behalf of Respondent Firm
3. Respondents shall annually submit to the Board the names of all audits to be performed for North Carolina housing authority clients.
4. Respondents shall obtain a pre-issuance review of all North Carolina housing authority audits, including work papers, prepared by Respondent or on behalf of Respondent's firm. The pre-issuance reviewer shall be approved by the Board prior to performing said reviews. Respondents shall authorize and cause the pre-issuance reviewer to provide a copy of each pre-issuance review to the Board upon issuance.

5. Respondents shall reimburse the Board administrative costs incurred in the investigation of this matter. Said administrative costs shall be remitted with this signed Order.

The QASS quality assurance review found Darnell & Thompson, P.C. in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA's Statements on Standards for Attestation Engagements. Kendall L. Davis PC audited 43 public housing authorities in 8 states including at least 2 housing authorities in North Carolina from March 31, 2000 through December 31, 2000.

Kendall L. Davis, PC
Kendall L. Davis

On August 25, 2003, the North Carolina State Board of Public Accountant Examiners, based on the results of quality assurance review by QASS, and in lieu of further proceedings under 21 NCAC Chapter 8C, agreed to the following Order with Kendall L. Davis, PC and Kendall L. Davis (Respondent):

1. Respondent and Respondent Firm are censured.
2. Respondent is required to, at all times, be present on site as the supervisor of all North Carolina housing authority audits while such audits are being performed by or on behalf of Respondent Firm
3. Respondents shall submit to the Board at the acceptance of this Consent Order the names of all North Carolina public housing authority clients for whom Respondents are engaged to perform audits during the twelve months following entry of this Consent Order.
4. Respondents shall obtain a pre-issuance review of each report (including work papers) Respondent of Respondent Firm prepares for North Carolina public housing authority audit clients identified pursuant to Paragraph 3 above. The pre-issuance reviewer shall be approved by the Board prior to performing said reviews. Respondents shall authorize and cause the pre-issuance reviewer to provide a copy of each pre-issuance review to the Board upon issuance.
5. Respondents shall reimburse the Board administrative costs incurred in the investigation of this matter. Said administrative costs shall be remitted with this signed Order.

The QASS quality assurance review found Kendall L. Davis, PC in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133, and AICPA's Statements on Standards for Attestation Engagements. Kendall L. Davis PC audited 87 public housing authorities in 6 states including 15 in North Carolina from March 31, 2000 through December 31, 2000.

Sandra Rush, CPA

The State of New Mexico, Office of the State Auditor (SAO) initiated a complaint against Ms. Sandra Rush, CPA based upon her audit of the financial statements of the Public Housing Authority for the town of Mountainair, for the fiscal year ending June 30, 2000. The SAO specifically complained that the audit of the aforementioned PHA for the fiscal year ending June 30, 2000, included numerous instances of substandard work based upon working paper quality assurance reviews jointly performed by the SAO and QASS. It was alleged that Ms. Rush's audit was not in compliance with seven of the ten generally accepted auditing standards.

Mr. Rush waived here rights to a hearing under the Licensing Act. In waiving here rights, Ms. Rush neither admitted nor denied the complaint allegations. She agreed to limit her practice of public accountancy by neither performing nor planning to perform any governmental audit or attest services that would include PHAs.

If at any time Ms. Rush wishes to remove her agreed upon limitation to neither perform nor plan to perform any governmental audit or attest services that would include PHAs, she is required to notify the Board of her intent to offer such services and to complete 24 hours of continuing education in the area of HUD and PHA prior to offering the aforementioned governmental audit or attest services.

Ms. Rush further agreed that failure to fulfill agreement requirements will be considered a violation of the Code of Professional Conduct, Rule 407-Acts Discreditable, and may serve as a basis for Board disciplinary action. (Source: New Mexico State Public Accountancy Board newsletter – Summer/Fall 2002)

John J. Schonberger, Jr., CPA

The State of New Mexico, Office of the State Auditor (SAO) initiated a complaint against Mr. John J. Schonberger, Jr., CPA based upon his audits of the financial statements of the Public Housing Authorities for the Village of Cimarron, the Town of Springer, and the Town of Vaughn for the fiscal year ending June 30, 2000. The SAO specifically complained that the audits of the three aforementioned PHAs included numerous instances of substandard work based upon working paper quality assurance reviews jointly performed by the SAO and QASS. It was alleged that Mr. Schonberger's audits were not in compliance with nine of the ten generally accepted auditing standards.

Mr. Schonberger waived his rights to a hearing under the Licensing Act. In waiving his rights, Mr. Schonberger neither admitted nor denied the complaint allegations. He agreed to complete three SAO-approved fiscal year 2001 audits of the PHAs for the Village of Cimarron, the Town of Springer, and the Town of Vaughn. Following completion of the three aforementioned fiscal year 2001 PHA audits, he agreed to limit his practice of public accountancy by neither performing nor planning to perform any governmental audit or attest services that would include PHAs.

To remove his agreed upon limitation, Mr. Schonberger is required to notify the Board of his intent to offer such services and to complete 24 hours of continuing education in the area of HUD and PHA prior to offering the aforementioned governmental audit or attest services.

Mr. Schonberger further agreed that failure to fulfill agreement requirements will be considered a violation of the Code of Professional Conduct, Rule 407-Acts Discreditable, and may serve as a basis for Board disciplinary action. (Source: New Mexico State Public Accountancy Board newsletter – Winter/Spring 2002)

Lloyd Harrison, CPA

The State of New Mexico, Office of the State Auditor (SAO) initiated a complaint against Mr. Lloyd Harrison, CPA based upon five financial statement audits he conducted of the Village of Cuba, the Eastern Plains Council of Governments, the Village of Santa Clara, the Village of Wagon Mound, and the Village of Pecos, all of which included Public Housing Agencies (PHAs). The SAO specifically complained that the five audits of the aforementioned PHAs for fiscal year ending June 30, 2000, included numerous instances of substandard work based upon working paper quality assurance reviews jointly performed by the SAO and QASS. It was alleged that Mr. Harrison's audits were not in compliance with eight of the ten generally accepted auditing standards.

Mr. Harrison waived his rights to a hearing under the Licensing Act, 61-1-1 et seq. N.M.S.A. These rights included the right to a Notice of Contemplated Action; the right to conduct discovery of all witnesses and evidence to be used against him; the right to a hearing before the Board; the right to cross-examine all witnesses and evidence; and the right to appeal any Board decision.

In waiving his rights, Mr. Harrison neither admitted nor denied the allegations. He agreed to limit his practice of public accountancy by neither performing nor planning to perform any governmental audit or attest services that would include PHAs.

If at any time Mr. Harrison wishes to remove his agreed upon limitation, he is required to notify the Board of his intent to offer such services and to complete 24 hours of continuing education in the area of HUD and PHA prior to offering the aforementioned governmental audit or attest services.

Mr. Harrison further agreed that failure to fulfill agreement requirements will be considered a violation of the Code of Professional Conduct, Rule 407-Acts Discreditable, and may serve as a basis for Board disciplinary action. (Source: New Mexico State Public Accountancy Board newsletter – Winter/Spring 2002)

James R. Griffin

On January 24, 2001, the Texas State Board of Public Accountancy, based on the results of quality assurance review by QASS, and in lieu of further proceedings under the

Texas Public Accountancy Act (Act) and the Rules of the Texas State Board of Public Accountancy (Board Rules), specifically Act Chapter 901.502(6) and Board Rules 501.80 and 519.12, agreed to the following Consent Order with James R. Griffin (Respondent):

1. Respondent holds Certificate number 05738 issued by the Board.
2. On March 18, 1999 the Board revoked Respondent's certificate.
3. On May 18, 2000 the Board reinstated Respondent's certificate.
4. While Respondent's certificate was revoked he performed the following audits of Housing and Urban Development funded entities:

<u>Entity</u>	<u>Audits for Year Ended</u>	<u>Report Date</u>
Rockdale, Texas	September 30, 1999	January 5, 2000
Belton, Texas	September 30, 1999	January 6, 2000
Rogers, Texas	September 30, 1999	January 7, 2000
Farmersville, Texas	September 30, 1999	February 15, 2000
Plano, Texas	June 30, 1999	February 15, 2000
Killeen, Texas	September 30, 1999	May 25, 2000

ACCORDINGLY, the Respondent agrees and the Board ORDERS that the respondent's Certificate is voluntarily revoked in lieu of further disciplinary proceedings.

The QASS quality assurance review found James R. Griffin in violation of generally accepted auditing standards, generally accepted government auditing standards, OMB Circular A-133 and Texas state law. James R. Griffin performed audits of 6 Texas housing authorities for fiscal years ended June 30, 1999 and September 30, 1999 while not being licensed to perform the audits.